Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Message Text

CONFIDENTIAL

PAGE 01 STATE 174070

41
ORIGIN EB-07

INFO OCT-01 ARA-06 ISO-00 SSO-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

NSCE-00 INRE-00 /086 R

DRAFTED BY EB/OT/STA:MCJONES:JH
APPROVED BY EB/OT/STA:WCLARK, JR.
TREAS:POSUCHMAN
ARA:JGRUNWALD
ARA/ECA:RZIMMERMAN
ARA/ECP:MDAVILA
---------- 009547
O 141608Z JUL 76
FM SECSTATE WASHDC
TO AMEMBASSY BRASILIA IMMEDIATE
INFO AMCONSUL RIO DE JANEIRO IMMEDIATE
AMCONSUL SAO PAULO IMMEDIATE

C O N F I D E N T I A L STATE 174070

E.O. 11652:GDS

TAGS: ETRD, EFIN, BR

SUBJECT: COUNTERVAILING DUTIES -- SIMON-SIMONSEN AGREEMENT
ON LEATHER HANDBAGS

REF: A) BRASILIA 6034, B) STATE 170005 (NOTAL) C) STATE
171562 (NOTAL) D) STATE 164211 (NOTAL)

1. FOLLOWING IS TEXT OF JULY 13, 1976, LETTER FROM
TREASURY DEPUTY ASSISTANT SECRETARY PETER O. SUCHMAN TO
DR. FRANCISCO DORNELLES, SENIOR ADVISOR, MINISTRY OF
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CONFIDENTIAL

PAGE 02 STATE 174070

FINANCE, CONCERNING ISSUE RAISED IN REF A. PRESS GUIDANCE

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

REQUESTED IN PARA 3 WILL BE SENT SEPTEL. BEGIN TEXT.

DEAR FRANCISCO:

CIRO DEFALCO AT THE EMBASSY IN BRASILIA HAS TOLD ME OF YOUR RECENT CONVERSATION WITH HIM REGARDING THE WAIVER OF COUNTERVAILING DUTIES ON LEATHER HANDBAGS. I TALKED TODAY WITH MR. BINBATO OF YOUR STAFF WHO FURTHER ELABORATED ON YOUR POSITION. AT MR. BINBATO'S SUGGESTION I AM WRITING YOU WITH HOPES THAT THIS EXPLANATION CAN CLEAR UP ANY MIS-UNDERSTANDING.

THE WAIVER, WHICH SECRETARY SIMON SIGNED ON JULY 7 AND

WHICH WILL BE PUBLISHED IN THE FEDERAL REGISTER TODAY, JULY 13, IS EFFECTIVE ON GOODS EXPORTED FROM BRAZIL ON OR AFTER JULY 1. I HAVE BEEN TOLD THAT YOUR EXPECTATIONS WERE THAT THE ACTION WOULD BE EFFECTIVE ON GOODS ENTERED INTO THE U.S. AS OF JULY 1. IT IS NOT DIFFICULT TO UNDER-STAND HOW SUCH CONFUSION AROSE, SINCE THE MATTER IS NOT ADDRESSED IN ANY DETAIL IN THE MAY 11 EXCHANGE OF LETTERS BETWEEN SECRETARY SIMON AND MINISTER SIMONSEN. SECRETARY SIMON'S LETTER STATES MERELY THAT THE WAIVER WILL BE EFFECTIVE ON ENTRIES OR EXPORTS AS OF THAT DATE. IT WAS NOT UNTIL THE TERMS OF THE PORTARIAS OF JUNE 24, 1976, WERE MADE KNOWN TO US THAT WE WERE ABLE TO DETERMINE WHAT THE STRUCTURE OF THE WAIVER OUGHT TO BE. YOUR JUNE 24 ACTION, AS WE UNDERSTAND IT, APPLIES TO "EXPORT TRANSAC-TIONS AS OF JULY 1, 1976".

INASMUCH AS THE "ADEQUATE STEPS" TO REDUCE SUBSTANTIALLY THE ADVERSE EFFECT OF THE BOUNTY OR GRANT, AS REQUIRED BY LAW, TAKE EFFECT ON EXPORT TRANSACTIONS AS OF JULY 1, THE WAIVER MUST BE LIMITED BY THOSE TERMS IN ORDER TO BE LEGALLY SUPPORTABLE. IT IS OUR JUDGMENT THAT WE COULD NOT DEFEND A CHALLENGE TO THE WAIVER IF IT WERE TO REMOVE COUNTERVAILING DUTIES ON IMPORTS STILL RECEIVING THE FULL INCENTIVE BENEFITS.

AS YOU MAY BE AWARE, THE U.S. HANDBAG INDUSTRY HAS CONFIDENTIAL

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PAGE 03 STATE 174070

BEGUN AN ATTEMPT FOR A CONGRESSIONAL OVERRIDE OF THIS WAIVER. YOU WILL RECALL THAT UNDER THE TRADE ACT EITHER HOUSE OF THE CONGRESS CAN NULLIFY THE SECRETARY'S ACTION. WE ARE AWARE THAT KEY MEMBERS OF CONGRESS IN BOTH HOUSES HAVE BEEN CONTACTED BY THE DOMESTIC INDUSTRY, AND THEY HAVE BEEN IN TOUCH WITH SECRETARY SIMON TO LET HIM KNOW OF THEIR CONCERNS ABOUT THE APPROPRIATENESS OF THIS WAIVER, GIVEN THE FACT THE BRAZILIAN HANDBAG EXPORTS WILL CONTINUE

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

TO RECEIVE SOME EXPORT INCENTIVES UNTIL THE END OF 1977. NEEDLESS TO SAY, WE WILL MAKE EVERY EFFORT TO HAVE THE WAIVER SUSTAINED IN THE CONGRESS. HOWEVER, OUR PROSPECTS WOULD BE SIGNIFICANTLY DIMINISHED WERE WE TO STRUCTURE THE WAIVER IN A WAY WHICH ELIMINATED COUNTERVAILING DUTIES ON IMPORTS WHICH HAD RECEIVED FULL EXPORT BENEFITS.

AN ADDITIONAL PROBLEM HAS BEEN RAISED REGARDING THE JUNE 24 ACTION BY THE BRAZILIAN AUTHORITIES. IT HAS BEEN SUGGESTED TO US THAT THE BRAZILIAN GOVERNMENT HAS TAKEN STEPS TO PROVIDE FOR THE CONTINUED GRANTING OF THE FULL AMOUNT OF TAX CREDITS ON EXPORTS OF LEATHER HANDBAGS FOR SOMETIME IN THE FUTURE. WE HAVE ASSURED THE DOMESTIC INDUSTRY THAT THIS IS NOT THE CASE BUT THAT WE WOULD PURSUE THE MATTER WITH THE GOVERNMENT OF BRAZIL TO BE SURE THAT THERE WAS, IN

FACT, NO METHOD BY WHICH MANUFACTURERS OR EXPORTERS CAN RECEIVE THE FULL CREDITS ON GOODS EXPORTED AFTER JULY 1, 1976. I WOULD APPRECIATE HEARING FROM YOUR AS SOON AS POSSIBLE SO THAT WE CAN PUT THIS ALLEGATION TO REST.

I AM SURE GIVEN THE SPIRIT OF COOPRATION WITH WHICH WE HAVE DEALT WITH THESE CASES, WE CAN MAINTAIN OUR JOINT EFFORTS TO RESOLVE THIS PROBLEM IN THE MOST RATIONAL AND LEAST TROUBLESOME MANNER. I LOOK FORWARD TO DISCUSSING THESE MATTERS WITH YOU IN GREATER DETAIL AT THE FIRST APPROPRIATE MOMENT, AND UNDERSTAND THAT YOU PLAN TO BE IN WASHINGTON IN SEVERAL WEEKS. PERHAPS WE CAN MEET AT THAT TIME.

WITH BEST REGARDS,

SINCERELY YOURS,
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PETER O. SUCHMAN
DEPUTY ASSISTANT SECRETARY
(TARIFF AFFAIRS)

DR. FRANCISCO DORNELLES
SENIOR ADVISOR
MINISTRY OF FINANCE
BRASILIA, BRAZIL

END TEXT. KISSINGER

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